

SPECIAL

REPORT

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MAY 28 1996

May 23, 1996

No. 96-2

BOSTON'S FISCAL 1997 BUDGET: POISED FOR CHANGE?

The Mayor's recommended fiscal 1997 budget of \$1.347 billion represents a significant change from the current year as a result of the expected merger of Boston City Hospital (BCH) and Boston University Medical Center Hospital (BUMCH). With this anticipated change, the fiscal 1997 budget represents a decrease of \$132.8 million or 9.0% below the fiscal 1996 budget as hospital related operations and workforce would be transferred to the private, nonprofit Boston Medical Center. Specifically, the fiscal 1997 budget presumes that the Department of Health and Hospitals (DH&H) is abolished and replaced with a Public Health Commission (PHC) which will operate the public health functions of the City and oversee the emergency medical services. For comparative purposes, this report excludes hospital services for both years which results in a fiscal 1997 budget that increases by \$59.9 million or 4.7%. The remainder of this budget is very similar to past budgets, continuing the focus on the priority areas of education, public safety and neighborhoods. The Departments of School, Police and Fire represent 54.4% of the departmental budget but 67.3% of the increase. Other departments not included in the priority areas received small increases or are expected to provide services within their existing funding structure. This budget, with hospital services excluded, provides for an increase in the City's workforce for the third consecutive year. The Bureau renews its caution that the City should maintain a stable workforce level. The merger agreement and fiscal 1997 budget should be approved before July 1, 1996, in that order respectively. Approving the budget before the merger agreement would provide no funding authority for hospital services and would try to fund the PHC before it is legally authorized. This budget, with its emphasis on "doing things smarter" may be poised for change, but real change will be dependent on the strong commitment of the Mayor.

TWO-YEAR PLAN

For the first time, the City has included a two-year budget plan in the operating budget. This plan contains a limited explanation of revenue and expense assumptions. The plan focuses on:

- ♦ increasing public safety functions.
- ♦ improving the City's technology infrastructure.
- ♦ more efficiently managing the City's workforce.
- ♦ furthering educational priorities.

This is a positive first step in multi-year budgeting. However, expanded data about assumptions is needed.

Public Health Commission

For health services, the City budget provides only for the PHC, an independent authority which will operate the City's public health programs and oversee the emergency medical services. In terms of the fiscal 1997 budget, an appropriation has been submitted for the PHC only, totaling \$60.9 million, an increase of \$4.7 million or 8.4% from the public health portion in fiscal 1996. The agreement to merge BCH and BUMCH was submitted to the City Council on May 7th. Approval of this legislation will move all assets, liabilities and operations of DH&H and the Trustees to the PHC.

REVENUES CONTINUE STEADY GROWTH

Revenues in fiscal 1997 are projected to increase by \$59.9 million or 4.7%, for a total of \$1.347 billion. Following past trends, 83.3% of Boston's revenues will come from two sources: the property tax (52.7%) and state aid (30.6%). The remaining 16.7% of city revenues comes from fines, fees, investment income and other departmental income. Revenue projections contained in the fiscal 1997 budget are conservative in nature and will most likely increase during the course of the year.

Property Tax Up by 4%

The net property tax levy is expected to total \$708.9 million in fiscal 1997, an increase of \$26.3 million or 3.9% over fiscal 1996. The net levy equals the City's gross levy less the overlay reserve for abatements. This year's gross levy is expected to increase by \$24.9 million: \$17.9 million due to the normal 2.5% increase over the prior year's levy limit and \$7.0 million in new growth. Generally, at the time the tax rate is set in December, the City has been able to increase its levy estimate of new growth slightly, a situation that will most likely occur in fiscal 1997.

Aid From the State Shows Growth

Direct state aid included in the fiscal 1997 budget totals \$411.9 million, an increase of \$19.4 million or 4.9% over fiscal 1996. The two largest increases in state aid reflect the State's support of educational improvement through Chapter 70 and the continuation of the five-year phase-out of the cap on lottery distributions. The Chapter 70 amount included in the budget is net of funds for charter schools which is expected to amount to \$12 million next year. The City has chosen to hold the School Department harmless for the cost of charter schools and therefore the charter school amount is not included in the general fund budget. The state budget is not finalized at this time, and therefore, revenues from this source may increase slightly.

Other Revenues Increase

Of the remaining revenue sources available, departmental revenues are projected to generate \$137.0 million, \$8.6 million or 6.7% more than fiscal 1996. The majority of the departmental accounts are expected to increase moderately, with the largest growth occurring in investment income (+\$5.0 million) and building permits (+\$2.1 million). Non-departmental revenues are expected to total \$88.6 million, an increase of \$5.7 million or 6.9% over fiscal 1996. The driving factors behind this growth are motor vehicle excise tax collections at \$25.0 million, a jump of \$2.4 million or 10.6% over fiscal 1996 and revenue from parking meters of \$8.5 million, an increase of \$1.5 million or 21.4% over fiscal 1996. Other excise taxes are expected to experience moderate growth or level collections in fiscal 1997. The hotel excise tax is expected to rise by \$800,000, Chapter 121A taxes by \$555,000 and revenues from the jet fuel excise tax are projected to remain level.

STATE AID TO BOSTON

figures in 000's

	FY 1996	FY 1997	CHANGE FY96-FY97	%
ADDITIONAL ASSISTANCE	\$206,638	\$206,638	-	0.0%
CHAPTER 70	86,016	100,958	14,942	17.4%
LOTTERY	37,496	41,108	3,611	9.6%
SCHOOL CONSTRUCTION	13,025	13,587	562	4.3%
PUPIL TRANSPORT	9,757	9,988	231	2.4%
TEACHER PENSIONS	35,500	35,500	-	0.0%
MISC. STATE REVENUES	4,053	4,113	59	1.5%
STATE REVENUES	\$392,486	\$411,892	\$19,406	4.9%

GENERAL FUND REVENUE SUMMARY

figures in 000's

	FY1996	FY1997	CHANGE FY96-FY97	%
GROSS PROPERTY TAX	\$719,436	\$744,422	\$24,986	3.5%
OVERLAY	(36,756)	(35,449)	1,307	-3.6%
NET PROPERTY TAX	\$682,680	\$708,973	\$26,293	3.9%
CITY/COUNTY/SCHOOLS	128,457	137,029	8,572	6.7%
STATE REVENUES	392,486	411,892	19,406	4.9%
NON-DEPARTMENTAL	82,004	87,584	5,580	6.8%
NON-RECURRING	950	1,050	100	10.5%
TOTAL REVENUE	\$1,286,577	\$1,346,528	\$59,951	4.7%

SPENDING PROJECTED TO INCREASE

City spending in fiscal 1997 is budgeted at \$1.347 billion, an increase of \$59.9 million or 4.7%. In this budget, education and public safety are clear priorities. Collectively they account for 54.4% of total spending and will receive 67.3% of the \$59.9 million increase. Most of the remaining departmental budget increases are small and primarily reflect increases for salaries and

GENERAL FUND EXPENDITURE SUMMARY

figures in 000's

	FY1996	FY1997	CHANGE FY96-FY97	%
MISC. CITY DEPTS.	\$92,122	\$94,064	\$1,942	2.1%
PUBLIC HEALTH COMMISSION	56,170	60,890	4,720	8.4%
PUBLIC WORKS & SNOW REMOVAL	56,545	55,690	(855)	-1.5%
TRANSPORTATION	22,609	21,583	(1,026)	-4.5%
LIBRARY	20,895	21,524	629	3.0%
PROPERTY MANAGEMENT	12,110	12,129	19	0.2%
COMMUNITY CENTERS	10,870	11,291	421	3.9%
FIRE	92,008	96,760	4,752	5.2%
POLICE	155,145	166,980	11,835	7.6%
SUFFOLK COUNTY	10,156	10,146	(10)	-0.1%
EMPLOYEE BENEFITS	172,196	179,713	7,517	4.4%
TOTAL DEPARTMENTAL	\$700,928	\$730,771	\$29,843	4.3%
SCHOOLS	\$445,120	\$468,887	\$23,767	5.3%
SUBTOTAL	\$1,146,048	\$1,199,659	\$53,712	4.7%
MANDATORY	\$140,631	\$146,870	\$6,239	4.4%
TOTAL EXPENDITURES	\$1,286,577	\$1,346,528	\$59,951	4.7%

inflation. Generally, any new initiatives undertaken in these departments will be accomplished without new funding. Boston spends 73.0% of its funds in six areas: Schools (34.8%), Police (12.4%), Retirement System (7.3%), Fire (7.2%), Debt Service (6.2%) and Health Insurance (5.1%). Salaries paid to employees are projected to make up almost 50% of total spending in fiscal 1997. That number will increase to reflect final negotiated labor contracts in the City. As of June, 1996, most of the City's labor agreements will expire, with the exception of the teachers union and other school unions. Funding for these collective bargaining contracts is not included in the fiscal 1997 operating budget because they have not been settled. The school custodians' contract has been settled and will cost the City approximately \$1.1 million in fiscal 1997, a figure that is not included in the operating budget.

Looking To Work Smarter

As part of this year's budget process, city departments were asked to review their operations and question how services could be provided more efficiently. This effort produced a list of 100 new ideas for the Mayor. A nine point Action Plan was developed to facilitate implementation of these ideas. It is not clear how this review of operations and business practices affected the fiscal 1997 budget but this continuous review raises expectations for meaningful change during the year and in the fiscal 1998 budget. Also, performance measurement is being refined to improve service improvement and accountability.

FY'97 Priorities

The 1997 budget introduces some new initiatives and continues programs started in previous years in addition to the changes in the DH&H. There is a commitment to the Mayor's priorities and an attempt to increase staffing in critical areas while holding employees level in other areas. The following initiatives are highlighted in the Mayor's priority areas for fiscal 1997:

Education ~ Over 75% of the BPS budget increase of \$23.8 million will be used for growth in salaries and benefits, including \$10.0 million for teachers' salaries. Within this context, the fiscal 1997 School budget also focuses on seven areas: expanding full-day kindergarten for five-year olds, high school accreditation, revision of the curriculum standards & frameworks, assessments, textbooks and materials, school-to-career program and a technology plan.

Police ~ The Police Department budget funds 50 additional police recruits in fiscal 1997. Also, efforts are planned to move civilians into administrative functions that will allow more police officers to be assigned to the neighborhoods. The budget also includes funds for the opening of the new police headquarters, slated to be operational in April, 1997 and the opening of the Jamaica Plain station. The new headquarters will bring a new, modern and efficient building to the City and will consolidate several central policing functions under one roof. Further enhancing public safety in Boston, this budget provides funding for 30 new crossing guards and 25 additional police cadets.

Fire ~ The Fire Department budget includes funds for three classes or 99 firefighters. This comes after a hold on classes in fiscal 1996, as the City waited for the finalization of an independent study of the Department. The study, now completed, recommended \$3.8 million in savings for the Department. However, this budget does not include any of the recommendations made in the study. Instead, the Fire Commissioner is reviewing this study and is expected to implement a savings of \$1.0 million based on the recommendations.

CHANGES IN FY'97

The fiscal 1997 budget includes some structural changes to the way Boston's government looks and operates as well as new programs. These changes are expected to improve city services as well as cross departmental collaboration. Some highlights are:

- ♦ Moving *Central Fleet Maintenance* (CFM) out of Transportation and establishing it as a separate department. Both of these departments were moved to the Basic Services Cabinet. CFM will provide central maintenance for vehicles in Public Works, Parks & Recreation, Inspectional Services and Assessing.
- ♦ The Printing Department's name has been changed to *Graphic Arts* as it looks to modernize operations.
- ♦ The Rent Equity Board has changed to the *Rental Housing Resource Center* as rent control is phased out. This department will focus on maintaining the City's commitment to landlords and tenants by offering mediation services and assisting low and moderate income tenants in finding affordable housing.
- ♦ A new *taxpayer assistance service* is planned which will provide a one-stop payment service for "customers" paying bills to the City.



What's New In The Neighborhoods

Following Mayor Menino's verbal commitment to the neighborhoods of the City, the fiscal 1997 budget does focus on some neighborhood initiatives. These initiatives are expected to be completed through a redirection of existing funds as well as bringing new funds to individual departments. Initiatives that are highlighted include: The *Parks and Public Works* Departments are directed to work on beautification of the Main

Streets areas as well as use summer youth workers for clean-up crews. Their budgets also focus on graffiti removal and expansion of street sweeping and recycling. The *Library* Department will add a children's librarian as well as eliminate the lunch hour closing at the Mattapan Branch. *Community Centers* are expected to develop a before school program to provide child care services for children in schools with a 9:30 A.M. start time. The *Inspectional Services* Department budget will increase in fiscal 1997 to enhance its building and facility inspection capability and its ability to aggressively target high risk health areas and improve the processing of violations and handling of complaints. The Department next year also expects to further develop its technological capacity in an effort to improve customer service and streamline available information.

Employees in FY'97

For the third year in a row, the budgeted number of city departmental employees, not including BPS or DH&H, will increase. Departmental quotas for permanent positions in the fiscal 1997 budget will grow by 173 or 2.1% over fiscal 1996. Personnel quotas represent the number of permanent positions funded in the budget and indicate the expected change in employee levels but not the actual number of employees working. The increase primarily reflects the Mayor's initiatives with growth expected in the Departments of Police, Inspectional Services, Community Centers, Fire and Public Facilities. This increase follows the fiscal 1996 quota increase of 300 or 2.7% and the fiscal 1995 quota increase of 389 or 3.6%. On the other hand, the School Department estimates a slight decline in the number of positions in fiscal 1997.

The Menino Administration has expressed its commitment to managing a workforce reduction. A Managed Reduction Task Force will be appointed by the Mayor over the next six months to review the existing workforce and make recommendations for reductions and restructuring of positions. As part of this strategy, the Administration is expected to offer an Early Retirement Incentive (ERI) that it estimates will reduce the workforce and produce a net savings of approximately \$1.0 million. This reduction is included in the City's fiscal 1998 plans.

RECOMMENDATIONS

The Bureau's recommendations for fiscal 1997 and beyond are divided into two categories: (1) those that address redeployment of existing resources in a more efficient manner and (2) changes to the budget format. Once again, the Bureau calls on the City to deliver services efficiently and cost effectively within the existing financial structure. Implementation of these changes should provide savings and enable employees to be redeployed into other areas to meet the new and changing needs of the City.

- ♦ The Menino Administration should push the Managed Reduction Task Force to complete its work quickly and insure that the City maintains a stable workforce. Payroll growth in priority services should be countered by reductions in other areas. Efficient personnel management is critical to Boston's service delivery. The Administration should develop a performance-based personnel system that ties performance measures to wage increases and promotions. Centralized hiring and promotion policies that meet affirmative action needs should be established and consistently and fairly applied. The Department lacks an adequate internal staff development and training component which is inconsistent with its charge of effective management of the City's personnel operations.
- ♦ The City's technology upgrade plan should be a high priority as its implementation will improve the efficiency of important services through automation and allow employees to be redeployed into other priority areas. Over the next year, we expect to see the completion of a preliminary automated payroll system and a purchasing system. However, these are temporary fixes and the overall technology strategy for the City should be a priority and implemented as soon as possible.
- ♦ Upcoming collective bargaining negotiations should be approached aggressively by the Administration to secure more efficient work rules and improved management efficiencies for the City. All the major city contracts except for the Boston Teachers Union will expire on June 30, 1996.
- ♦ More than \$1.0 million in savings should be expected from implementation of the fire audit recommendations. The audit report, released in October 1995, made 83 recommendations with savings totaling \$3.8 million. Full implementation of the audit would produce a net reduction of 72 firefighter positions, which raises the question of why three new classes are planned in this budget.
- ♦ The Mayor should appoint a task force of business leaders to thoroughly review city operations and recommend steps to strengthen effective management and improve the productivity of the City's delivery of services. No such commission has been created by a Mayor of Boston for over 20 years. The task force could start by reviewing the 100 new ideas that emerged this year from an internal review of city services in a process developed to identify creative ways of "doing things smarter." To assist this task force, the Administration should proceed at once with its plan to develop a unit costing methodology to better understand the real costs of providing municipal services.
- ♦ The Administration's two-year budget summary table should be accompanied by a more detailed narrative of revenue and expenditure assumptions. A comprehensive two-year plan is an opportunity for improved financial management and public discussion about the future direction of the City. Also, an all-funds summary budget should be presented with the budget document to show the total resources available to each department. The all-funds summary will insure a more efficient allocation of resources and help prevent duplication of services. Additionally, the capital and operating budgets should be further joined and actual expenditures for capital projects by program, department and year should be included.